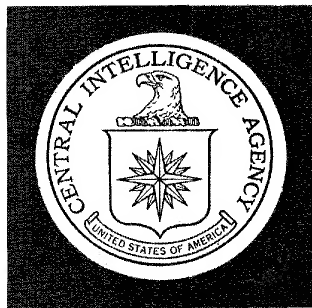


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam

~~Secret~~

December 1970
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1970

INTELLIGENCE REPORT

The Economic Situation in South Vietnam

Summary

The results of the government's recent stabilization measures continue to be favorable. Price increases have been minimal; retail prices in Saigon are only 3% higher than just before the October reforms, and prices of imported commodities are unchanged. The black market rate for dollars has dropped below the pre-reform level, and the money supply has declined slightly despite increases in private credit and government spending.

Distribution of land under the Land-to-the-Tiller program finally has begun to gain momentum, and the first compensation payments to former landlords were made this month.

The harvest now under way probably will yield the largest rice crop in South Vietnam's history.

Charts on prices and money supply, import licensing, currency and gold prices, the government budget, and foreign exchange reserves follow the text.

Recent Trends

1. Economic indicators continue to be favorable. Retail prices in Saigon declined 5% during the three weeks ending 7 December; the USAID index is now only 3% above the pre-reform level. The average price level for November was 34% above that of December 1969 -- the same increase that occurred during January-November 1969. Vegetable prices, which had been responsible for most of the increase

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in the index during October and early November, began to decline late last month. Prices of all foodstuffs rose 6% during October and November, but, excluding vegetables, the index of food prices increased only 1%. Prices of medium-quality rice, which were stable throughout November, declined slightly during the first week in December and are roughly 10% below prices of a year ago. Non-food prices increased 4% during October and November, mainly reflecting higher prices for charcoal, firewood, and cigarettes. Prices of imported goods rose 3% in October, but declined by the same amount in November.

2. Importers' windfall profits apparently are being reduced as a result of the recent stabilization measures. According to Embassy officials, the average cost to importers of the products reported in the USAID price index for imported commodities rose 21%. Although few of the goods ordered after the higher exchange and tax rates became effective probably have arrived in South Vietnam, importers' costs have been raised by the new advance deposit system and higher interest rates. And, since import prices have been stable, the increase in costs so far has been absorbed by importers rather than consumers. Moreover, with the removal of most restrictions on import licensing, importers' profits may be further cut back.

3. Demand for imports picked up in November. Licenses issued for imports financed with GVN foreign exchange reached a new high for the year as importers began ordering goods for the Tet holidays. As an inducement to buy American goods, the government on 23 November eliminated advance deposit requirements for US-source goods purchased with GVN foreign exchange. In recent years, less than 5% of imports financed by the GVN have come from the United States.

4. Higher interest rates on savings and time deposits and importer demand for piasters to meet advance deposits and higher interest rates on loans apparently have reduced demand for dollars on the black market. The supply of dollars has continued to decline as a result of the new exchange rate for US personnel, which is causing a substantial shift of funds from the black market to legal channels. The decline in demand apparently has

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been greater than the decline in supply. Black market currency prices fell steadily between 12 October and 7 December. The price of dollars dropped to 392 piasters per dollar, or 8% below the pre-reform rate, and the rate for MPC (scrip) fell 5 piasters below the official rate to 270 piasters per dollar.

5. Advance deposits for imports and savings and time deposits attracted by higher interest rates have absorbed sufficient piasters to more than offset the increase in private credit and in government borrowing from the national bank to pay for the government wage increase. As a result, the money supply declined about 1% between 12 September and 14 November.

6. Indeed, it is unlikely that advance deposits could have been financed without reducing the money supply even further, unless funds formerly leaving the country via the black market had not been repatriated. As of 14 November, advance deposits for imports amounted to almost 11 billion piasters; yet between 12 September and 14 November the decline in demand deposits and the increase in bank loans amounted to only about half that amount. In the same period, savings and time deposits in commercial banks increased 5 billion piasters, or 29%. Because withdrawals from these deposits have been another source of import financing, increased savings resulting from higher interest rates certainly were much larger than 5 billion piasters.

7. The government's financial reform program thus has been quite successful. Speculation and black market demand have been dampened, importers' excess profits have been reduced, and savings made more attractive. Public expectations about economic developments apparently have been positive. This change in expectations combined with the monetary benefits of the interest rate reform, the advance deposit system, and the partial devaluation has resulted in price stability despite the government pay increase. Nevertheless, basic forces causing inflation and inequities in income still exist, and US officials in Saigon have begun talks with the GVN in an effort to formulate the additional stabilization measures that will be necessary to ensure the continuation of recent favorable economic developments.

Progress In Land Reform

8. Distribution of land under the Land-to-the-Tiller program, which became law in March 1970, began in late August and has gained momentum since then. This momentum probably will continue for several months as undisputed cases are processed. Once the easy cases have been completed, however, the backlog of disputed claims, of which a sizable number is anticipated, probably will slow distribution considerably.

9. The Land-to-the-Tiller program is expected to involve the transfer of roughly one million hectares of farmland to more than 500,000 new owners. By the end of October, landlords had declared 714,000 hectares available for transfer and 523,000 hectares for their own retention. Under the new law, landowners may retain up to 15 hectares providing they or their families cultivate the land themselves. Initially, GVN officials had hoped to transfer ownership of 200,000 hectares during 1970, but the first land titles, which were presented to new owners by President Thieu, were not distributed until 28 August. As of 30 October, new titles had been issued for only 8,000 hectares, but by the end of November the total had jumped to 27,800 hectares. The government believes 400,000 hectares can be transferred in 1971.

10. Titles have been printed -- by a computer in Saigon -- for about 17,000 farmers, but the very limited information available on the number of titles actually in the hands of the new owners indicates that there is a considerable lag between the issuance of titles in Saigon and their distribution to farmers. An effort is being made to shorten this interval, however, in order to maximize the political impact of the land reform. On the basis of the number of hectares and farmers involved thus far, the average plot size for the new owners is 1.6 hectares (4 acres). According to the land reform law, the maximum holding for a new owner is three hectares in Military Regions III and IV and one hectare in Military Regions I and II.

11. It appears that the greatest source of delay in the land distribution process occurs at

the village level. Applications for land ownership by tenants and others must be presented to and approved by village administrative committees. At the end of October, 74,000 applications had been received by village officials but only 15,000 had been approved. About 4,000 village officials and Revolutionary Development cadre, who will act as land registrars, have completed initial training courses on how to administer the new law, and the rate of approval is expected to increase as they gain experience and receive additional training. Nevertheless, disputed or unclear claims, which now are being shunted aside, probably will pile up, resulting in lengthy delays and dissatisfaction among recipients. Many disputes are bound to arise, for example, in cases where an owner of a small plot, who was forced to leave the land either to join the army or because of insecurity, could have his land expropriated and given to a squatter because he cannot return to cultivate it. US officials now estimate that distribution under the Land-to-the-Tiller program will not be completed before the end of 1973.

12. The first cash payments to owners whose land has been expropriated were made by the Prime Minister on 5 December in Go Cong Province. The government had a strong incentive to begin compensation before the end of this year because the US agreed to release \$5 million in additional funds for the Commercial Import Program (CIP) if the GVN made at least one payment before 1 January 1971. Now that the deadline has been met, the remainder of the \$40 million earmarked for support of the land reform program, all of which will go to the CIP to help offset the inflationary effects of the land payments, will be released in tranches of \$2.5 million for each 65,000 hectares of land distributed to new owners.

13. According to preliminary information, the compensation received by the former landlords in Go Cong amounted to roughly 100,000 piasters per hectare (\$364 at the parallel market rate of 275 piasters per dollar). They received 20% of this amount in cash and will get the remaining 80% in the form of an 8-year bond bearing 10% interest, which will be issued during the next few months when the compensation system has been automated.

The procedure for calculating the price per hectare has not been clarified, but according to the law it is to depend on past yields and the price of paddy at the time of expropriation, or March 1970. The price of land in Go Cong seems pretty much in line with this formula. At 100,000 piasters per hectare the cost to the government of compensation for 1 million hectares would amount to 100 billion piasters (excluding interest on the bonds), or more than two-thirds of total government expenditures last year. For 1971, the government has budgeted 10 billion piasters for land reform compensation, an amount sufficient to cover the 20% cash payments and the interest payments on the bonds for about 350,000 hectares. The expense of land reform plus an even larger amount for veterans' benefits will be built into the budget for many years and is especially burdensome now that the GVN's share of the cost of the war is increasing as a result of Vietnamization.

Rice Crop 1970/71

14. According to official estimates, the South Vietnamese currently are harvesting the largest rice crop in their history. Paddy production is expected to increase 10% during the crop year ending 31 May 1971 to 5.7 million metric tons, as shown in the following tabulation.

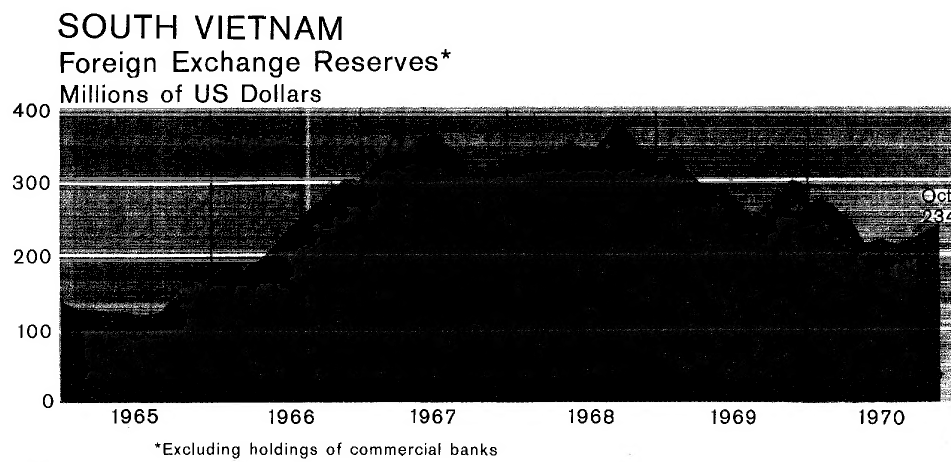
	<u>1960/70</u>	<u>1970/71</u>
Paddy production (Thousand metric tons)	5,115	5,651
Cultivated area (Thousand hectares)	2,430	2,520
Yield per hectare (Metric tons)	2.105	2.242

This estimate may be reduced somewhat as a result of the losses caused by the late October floods in the northern coastal provinces, but since three-fourths of the crop comes from the rice surplus areas of Military Region IV and Long An Province in Military Region III, where the weather was generally good, the reduction in estimated output probably will be small.

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15. As was the case last year, most of the increase is due to the use of the "miracle" seeds IR 8, IR 5, and now IR 20, which is more disease resistant and more palatable than the earlier varieties. Yields from the improved seeds apparently are averaging three to six tons per hectare, and the average yield from the entire 1970/71 crop is estimated at 2.242 tons per hectare, up 7% from the previous year. The area under cultivation increased 4% to 2.5 million hectares. Most of the increase in areas reportedly is due to increased double cropping, especially of the "miracle" seeds, but some abandoned lands were reclaimed in areas where improved security allowed peasants to return to their farms. "Miracle" rice was to be planted on 500,000 hectares, or one-fifth of the cultivated area, and early indications are that this goal will be achieved.

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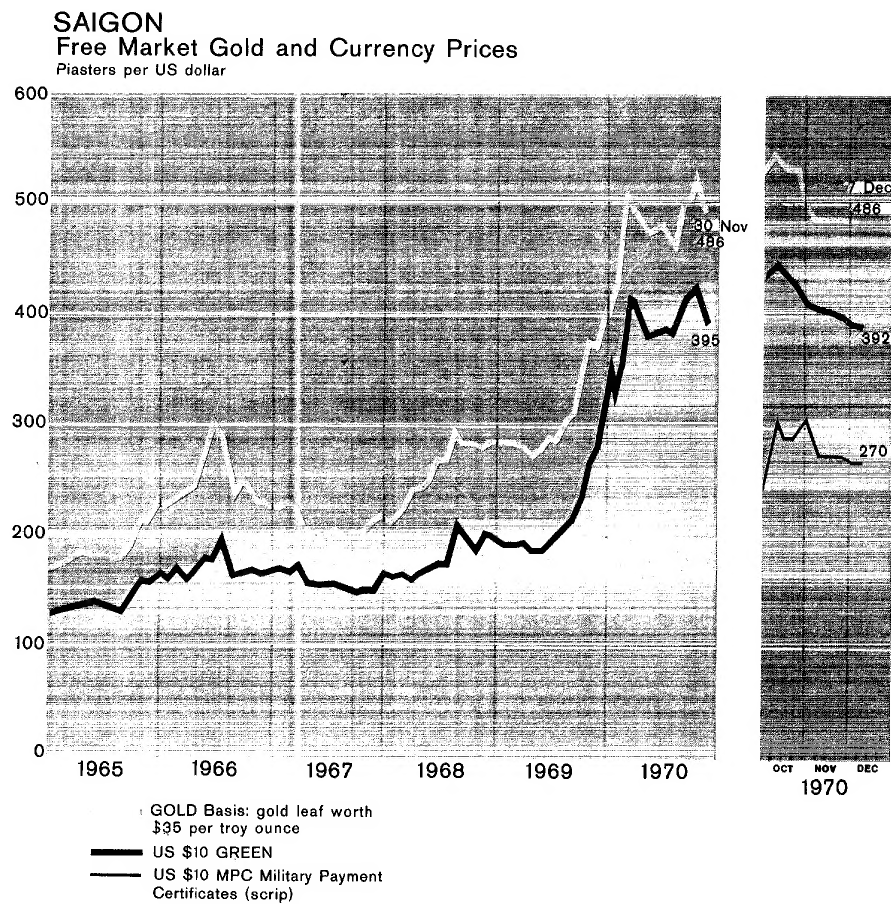


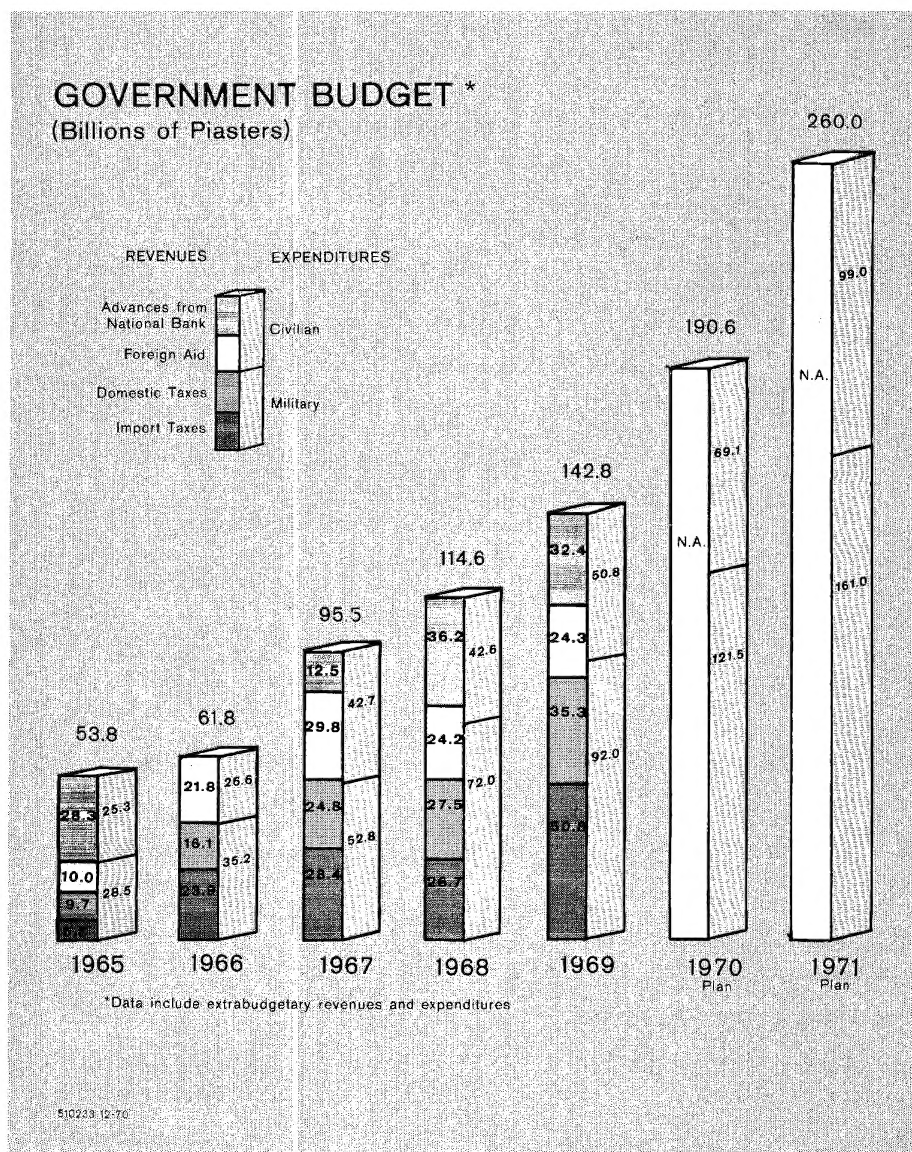
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SOUTH VIETNAM

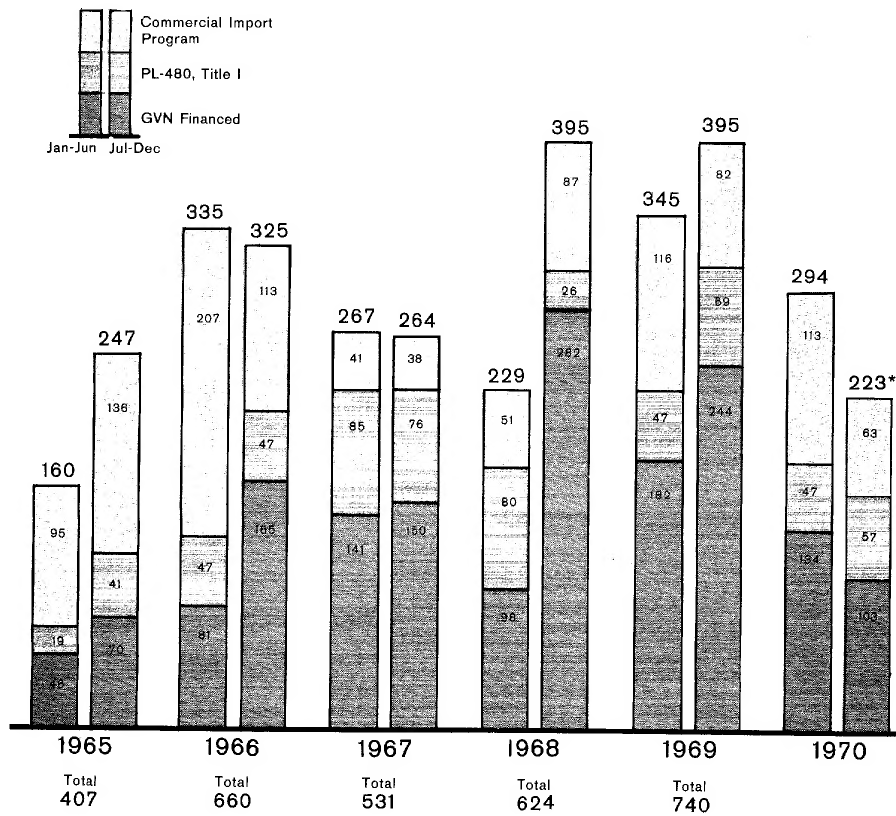
Indexes of Money Supply and Saigon Consumer Prices







IMPORT LICENSING (Millions of Dollars)



*July through October only

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